

BLUE SHIELD GROUP MEDICARE ADVANTAGE/PART D PROPOSAL

DESCRIPTION

Blue Shield of California (Blue Shield) proposes establishing a Group Medicare Advantage/Part D (GMA-PD) product for eligible CalPERS Blue Shield members effective January 1, 2010. A Medicare Advantage health plan is a plan that contracts with the federal government under the Medicare Advantage program to provide health benefits to persons eligible for Medicare who enroll in and obtain services from the plan instead of receiving their benefits and care through the traditional fee-for-service Medicare program. Medicare pays Medicare Advantage plans to provide all traditional Medicare basic benefits, with the plans using any savings to provide additional benefits (vision, hearing care, or dental) to the members.

To participate in a Medicare Advantage plan, members must enroll in both Medicare Parts A and B and receive all Medicare-covered benefits through the plan. Members choose a Primary Care Physician and receive services from the plan's network providers. The Medicare Prescription Drug, Improvement and Modernization Act (MMA) established a prescription drug benefit program, referred to as Medicare Part D. A GMA-PD plan administers and delivers both medical services and prescription drug coverage under the Part D program. Currently a GMA-PD plan option is available to CalPERS members through Kaiser.

Blue Shield estimates that offering a GMA-PD in specific Southern California counties in 2009 would have saved CalPERS over \$6.0 million.

CALPERS STAFF ANALYSIS

According to Blue Shield, it achieves its estimated savings by offering the GMA-PD in Southern California due to competitive provider contracting. CalPERS staff will validate the estimated savings during the 2010 rate renewal process.

Blue Shield GMA-PD Only Counties

Blue Shield will offer the GMA-PD in nine counties and require all Blue Shield Medicare members in these counties to enroll in the GMA-PD to receive Medicare benefits. The Blue Shield GMA-PD will affect approximately 6,427 members (total covered lives) and 4,708 subscribers in the following counties:

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|------------|---------------|------------------|
| ▪ Fresno | ▪ Los Angeles | ▪ Riverside |
| ▪ Imperial | ▪ Madera | ▪ San Bernardino |
| ▪ Kern | ▪ Orange | ▪ Ventura |

Blue Shield would continue to offer its current Medicare-supplement plan in all other Blue Shield counties.

Member Disruption

The requirement for Blue Shield GMA-PD members to see Blue Shield GMA-PD physicians will disrupt services for 973 members (15.1 percent of the 6,427 members). Riverside and San Bernardino Counties will experience the greatest member disruption (228 and 239 members respectively, and 25 percent of their county totals) while 362 members in Los Angeles County (19 percent of that county's total) will experience disruption.

In addition, 122 (13.2 percent) of the disrupted members are 80 years of age and older and another 36 (4 percent) are under age 65 and disabled.

Formulary Disruption

Blue Shield does not expect any formulary disruption for members moving to the GMA-PD plan.

Medicare Part D Retiree Drug Subsidy (RDS) Impact

For the 2006-2009 plan years, the CalPERS Board of Administration voted to participate in the Medicare Part D Pharmacy Program by applying for the RDS subsidy for over 105,000 Medicare members. On March 17, 2008, CalPERS staff reconciled \$46.7 million for 2006 and in July 2008, distributed \$14.0 million to 788 contracting agencies and \$32.7 million to the State of California.

The Legislature, through Provisions 2 and 3 of Item 1900-001-0950 in Budget Act 2008-09 (Chapters 268 and 269, Statutes of 2008), states:

...PERS shall continue to apply directly for the maximum possible amount of Medicare Part D retiree drug subsidies in the 2008 and 2009 calendar years.

Notwithstanding the requirements of Provision 2, the Public Employees' Retirement System (PERS) may choose not to apply for subsidies related to plans for which it is not eligible to act as the sponsor and receive Medicare Part D subsidies related to their enrollees or with respect to persons enrolled in a board-approved Medicare Advantage prescription drug health benefit plan, consistent with actions of PERS for the 2008 calendar year. If PERS chooses not to apply for subsidies pursuant to this provision, PERS shall notify the Department of Finance, the chairpersons of the committees and the appropriate subcommittees in each house of the Legislature that consider the budget, the Chairperson of the Joint Legislative Budget Committee, and the Legislative Analyst's Office, and PERS shall explain the facts and circumstances underlying that choice.

If the Health Benefits Committee considers adoption of the Blue Shield GMA-PD for the 2010 health plan year, CalPERS will provide legislative notification accordingly.

Blue Shield estimates that if CalPERS had implemented its GMA-PD for the 2009 plan year, the State would lose approximately \$1.3 million in Medicare Part D RDS funds and

contracting agencies approximately \$0.8 million. According to Blue Shield, this would more than offset in immediate premium savings. Blue Shield based its subsidy estimates on January 2008 enrollments. CalPERS staff have not confirmed Blue Shield's analysis nor conferred with the Department of Finance as to whether a reduction to health care premiums would be preferable to the collection of RDS dollars.

RECOMMENDATION

Include proposal in 2010 rate setting process so that staff can conduct a rate impact cost-benefit analysis to validate the proposed savings and member impact, and assess the impact of the loss of RDS funds against the savings achieved in premium.